Financing Agreement

(Planning and Financial Management Capacity Building Project)

between

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 18, 2006
FINANCING AGREEMENT

AGREEMENT dated May 18, 2006, between DEMOCRATIC REPUBLIC OF TIMOR-LESTE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to four million eight hundred thirty thousand and nine hundred fifty Special Drawing Rights (SDR 4,830,950) (“Grant”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Payment Dates are April 15 and October 15 in each year.

2.05. The Payment Currency is United States Dollars.
ARTICLE III – PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Planning and Finance in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

4.01. The Additional Condition of Effectiveness consists of the following: the Recipient has signed a contract with one Financial Management Officer and an Adviser to the Program Implementation Officer, as agreed by both parties, to work with the Directorate of Administration and Information Technology in the Ministry of Planning and Finance.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the provisions of this Agreement shall terminate is fifteen (15) years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister for Planning and Finance.

5.02. The Recipient’s Address is:

Ministry of Planning and Finance
Palácio do Governo
Edifício 5, 1.º Andar
Dili, Democratic Republic of Timor-Leste
5.03. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

AGREED at Dili, República Democrática de Timor-Leste, as of the day and year first above written.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

By /s/ Maria Madalena Brites Boavida

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Xian Zhu

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient’s Ministry of Planning and Finance, its agencies, line ministries and district entities involved in financial management to strengthen planning, budgeting, public expenditure management and revenue administration with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objective:

Part A: Public Expenditure Management

1. Strengthening the Recipient’s capacity for effective, accountable, and transparent planning, budget formulation, and budget execution by:

   (a) improving the link between planning and budgeting, in collaboration with the districts, on the basis of sound information and costing through the development of new policies and procedures;

   (b) enhancing and supporting elaboration of the budget formulation system; and

   (c) enhancing budget execution through streamlining of decision functions.

2. Improving the use, access and transparency of the financial management systems in the Ministry of Planning and Finance and related financial management functions within the Recipient’s Government.

Part B: Revenue Administration and Macroeconomic Management

1. Strengthening the Recipient’s abilities in public financial management of revenue, including revenue collection, and macroeconomic management by:

   (a) strengthening the capacity of East-Timor Revenue Service in tax administration and revenue collection through the upgrading of systems, processes, skills, audits and accountability mechanisms,
and particularly in petroleum tax administration and revenue collection;

(b) strengthening the capacity of the Custom Service to implement its strategic plan and action program through the upgrading of systems, processes, skills, audits and accountability mechanisms; and

(c) supporting the Ministry of Planning and Finance’s Macroeconomy and Tax Policy Unit in the implementation of its long term plan to provide high quality macroeconomic forecasts and economic structural and fiscal policy advice, including on the petroleum fiscal regime.

Part C: Program-wide Activities

1. Strengthening the Ministry of Planning and Finance’s human resources functions, and good governance in public financial management by:

   (a) developing the Recipient’s public service professional leadership and management to meet civil service standards through the enhancement of skills, attitudes and behaviors, and the establishment of new systems and processes; and

   (b) enhancing the Recipient’s internal control mechanisms by promoting transparency, accountability and internal audit in public financial management.

Part D: Support for Improvement of Governance and Management

1. Strengthening executive management through support to the Minister of Planning and Finance, the Vice-Minister of Planning and Finance and their offices.

Part E: Program Implementation

1. Strengthening the capacity of the Ministry of Planning and Finance’s Administration and IT Directorate to implement the Project and to carry out its capacity to perform its regular functions.
SCHEDULE 2

Project Execution

Section I. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed by both parties, and include the information requested in Paragraph 2 of Part B of this Section. Each Project Report shall cover the period of one calendar trimester, and shall be furnished to the Association not later than three (3) weeks after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than January 10, 2012.


1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report, interim un-audited financial reports for the Project covering the trimester, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section II. Procurement

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
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<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
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<tr>
<td>(d) Procurement through the Inter-Agency Procurement Services (IAPSO)</td>
</tr>
</tbody>
</table>
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(c) Least-Cost selection</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
</tr>
<tr>
<td>(e) Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject only to Post Review by the Association.

Section III. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions and of this Section and such additional instructions as the Association shall specify by notice to the Recipient, to finance 100% of Eligible Expenditures, or other percentage the Association may determine from time to time by notice to the Recipient.
B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US$700,000 equivalent may be made for payments prior to this date but on or after December 12, 2005, for Eligible Expenditures.

2. The Closing Date is July 10, 2011.

Section IV. Other Undertaking

1. The Recipient shall maintain the Administration and IT Directorate in the Ministry of Planning and Finance: (a) with functions substantially the same to those in place at the signing of this Agreement for the duration of the Project; and (b) to be responsible for overall coordination, implementation, monitoring and evaluation of Project activities, including facilitating the recruitment of staff and advisers and the oversight of international advisers; ensuring implementation of project-wide activities; reporting on outputs/outcomes; and acting as secretariat to the supervisory committee.

2. The Recipient shall ensure that during the execution of the Project, the following advisers will work with the Administration and IT Directorate as needed. The Recipient shall hire advisers in accordance with the Procurement Plan, including four advisers to be part of the implementing team: one Adviser to the Program Implementation Officer; one Human Resources and Capacity Building Adviser; one short term Attitudes and Behavior Adviser, and an Adviser on Coordination and Performance Assessment of Advisers; and one Financial Management Officer.

3. The Recipient shall conduct an assessment of capacity in the Administration and IT Directorate and their associated Advisers in the first six (6) months of effectiveness of this Agreement, and the management support will be maintained or increased if necessary.

4. The Recipient shall ensure that during the execution of the Project, at least one Procurement Adviser as agreed between both parties will work under the Project.

5. The Recipient shall, by June of each year starting on June 1, 2006, until completion of the Project, furnish to the Association for review, comment,
and clearance a detailed draft of the action plan and proposed expenditure covering all Project components which will have been developed in collaboration with program agencies. The Recipient shall take into account the comments, if any, provided by the Association, and thereafter cause the approved action plan to be carried out in accordance with its provisions.

6. The Recipient shall make its best efforts in signing a Statement of Understanding with the donors participating to the financing of the Ministry’s of Planning and Finance program to strengthen planning and financial management.
APPENDIX

Definitions


2. “General Conditions” means the “International Development Association General Conditions for Credits and Grants” dated July 1, 2005.


4. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 16, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

5. “Statement of Understanding” means the document setting out implementation arrangements to be signed between the Government of Timor-Leste and the donors who will be participating in the financing of the Ministry’s of Planning and Finance program to strengthening planning and financial management.